2 Liquidity conditions and monetary policy operations in the period from 26 July to 31 October 2017

This box describes the ECB's monetary policy operations during the fifth and sixth reserve maintenance periods of 2017, which ran from 26 July to 12 September 2017 and from 13 September to 31 October 2017 respectively. During this period, the interest rates on the main refinancing operations (MROs), the marginal lending facility and the deposit facility remained unchanged at 0.00%, 0.25% and -0.40% respectively.

In parallel, the Eurosystem continued to purchase public sector securities, covered bonds, asset-backed securities, and corporate sector securities as part of its asset purchase programme (APP), with a target of €60 billion of purchases on average per month. This pace will be maintained until December 2017, after which it will be reduced to €30 billion on average per month until September 2018, or beyond if necessary.

Liquidity needs

In the period under review, the average daily liquidity needs of the banking system, defined as the sum of net autonomous factors and reserve requirements, stood at €1,212.5 billion, an increase of €43.7 billion compared with the previous review period (i.e. the third and fourth maintenance periods of 2017). This increase in liquidity needs was attributable to an increase in average net autonomous factors, which rose by €43.9 billion to a record high of €1,090.2 billion during the period under review, while minimum reserve requirements decreased marginally by €0.2 billion to €122.2 billion.

The growth in aggregate net autonomous factors, which implies absorption of liquidity, mainly resulted from a decrease in the liquidity-providing factors. The main contribution came from net foreign assets, which fell by €33.0 billion to €637.0 billion on average in the period under review. Average net assets denominated in euro also decreased, by €26.3 billion compared with the previous review period, to €306.1 billion.

Liquidity-absorbing autonomous factors also decreased over the review period, counteracting to some extent developments in liquidity-providing autonomous factors. The main contribution came from other autonomous factors, which fell by €30.1 billion to €690.3 billion. Increases in banknotes in circulation and government deposits, by €11.5 billion and €3.4 billion respectively, had a counterbalancing effect on the level of liquidity-absorbing autonomous factors.

The volatility of autonomous factors remained elevated and broadly unchanged from the previous review period. The volatility primarily reflected fluctuations in government deposits and net assets denominated in euro.

Table A

Eurosystem liquidity conditions

	26 July 2017 to 31 October 2017		3 May 2017 to 25 July 2017	Sixth maintenance period		Fifth maintenance period	
Liabilities – liquidity needs (averages; EUR billions)							
Autonomous liquidity factors	**2,033.1**	**(-15.3)**	**2,048.3**	**2,046.7**	**(+27.2)**	**2,019.5**	**(-52.2)**
Banknotes in circulation	1,142.7	(+11.5)	1,131.2	1,142.8	(+0.3)	1,142.5	(+6.2)
Government deposits	200.1	(+3.4)	196.7	218.3	(+36.4)	181.8	(-47.9)
Other autonomous factors	690.3	(-30.1)	720.5	685.6	(-9.5)	695.1	(-10.4)
Current accounts	**1,248.0**	**(+74.0)**	**1,174.0**	**1,253.3**	**(+10.5)**	**1,242.7**	**(+73.5)**
Monetary policy instruments	**752.0**	**(+35.0)**	**717.0**	**770.4**	**(+36.7)**	**733.6**	**(+15.7)**
Minimum reserve requirements	122.2	(-0.2)	122.5	122.3	(+0.1)	122.2	(-0.4)
Deposit facility	629.8	(+35.2)	594.5	648.1	(+36.6)	611.4	(+16.1)
Liquidity-absorbing fine-tuning operations	0.0	(+0.0)	0.0	0.0	(+0.0)	0.0	(+0.0)
Assets – liquidity supply (averages; EUR billions)							
Autonomous liquidity factors	**943.2**	**(-59.2)**	**1,002.4**	**937.0**	**(-12.3)**	**949.3**	**(-34.0)**
Net foreign assets	637.0	(-33.0)	670.0	635.0	(-4.0)	639.0	(-17.8)
Net assets denominated in euro	306.1	(-26.3)	332.4	302.0	(-8.3)	310.3	(-16.2)
Monetary policy instruments	**2,966.8**	**(+152.3)**	**2,814.4**	**3,010.2**	**(+85.9)**	**2,924.3**	**(+71.4)**
Open market operations	2,966.5	(+152.3)	2,814.2	3,010.0	(+86.0)	2,924.0	(+71.4)
Tender operations	772.7	(-6.0)	778.7	771.6	(-2.2)	773.8	(-2.7)
MROs	6.1	(-5.4)	11.5	6.7	(+1.2)	5.5	(-3.9)
Three-month LTROs	8.4	(+2.3)	6.1	8.3	(-0.2)	8.5	(+1.8)
TLTRO-I operations	18.6	(-2.6)	21.1	17.2	(-2.7)	19.9	(-0.6)
TLTRO-II operations	739.6	(-0.3)	739.9	739.4	(-0.5)	739.8	(-0.1)
Outright portfolios	2,193.8	(+158.3)	2,035.5	2,238.4	(+88.2)	2,150.2	(+74.1)
First covered bond purchase programme	7.2	(-0.8)	8.0	6.9	(-0.5)	7.4	(-0.3)
Second covered bond purchase programme	4.9	(-0.7)	5.5	4.8	(-0.1)	4.9	(-0.4)
Third covered bond purchase programme	229.7	(+8.4)	221.3	232.7	(+5.8)	226.9	(+3.6)
Securities Markets Programme	91.2	(-7.2)	98.3	90.5	(-1.2)	91.8	(-6.5)
Asset-backed securities purchase programme	24.6	(+0.6)	24.0	24.6	(-0.1)	24.6	(+0.4)
Public sector purchase programme	1,725.5	(+139.9)	1,585.6	1,762.6	(+73.4)	1,689.2	(+69.5)
Corporate sector purchase programme	110.8	(+18.0)	92.8	116.2	(+10.8)	105.4	(+7.7)
Marginal lending facility	0.3	(+0.0)	0.2	0.2	(-0.1)	0.3	(+0.0)
Other liquidity-based information (averages; EUR billions)							
Aggregate liquidity needs	1,212.5	(+43.7)	1,168.7	1,232.3	(+39.7)	1,192.6	(-18.7)
Autonomous factors[1]	1,090.2	(+43.9)	1,046.3	1,110.0	(+39.6)	1,070.4	(-18.2)
Excess liquidity	1,755.3	(+109.5)	1,645.8	1,778.8	(+47.1)	1,731.7	(+90.1)
Interest rate developments (averages; percentages)							
MROs	0.00	(+0.00)	0.00	0.00	(+0.00)	0.00	(+0.00)
Marginal lending facility	0.25	(+0.00)	0.25	0.25	(+0.00)	0.25	(+0.00)
Deposit facility	-0.40	(+0.00)	-0.40	-0.40	(+0.00)	-0.40	(+0.00)
EONIA	-0.357	(+0.001)	-0.358	-0.359	(-0.003)	-0.356	(+0.003)

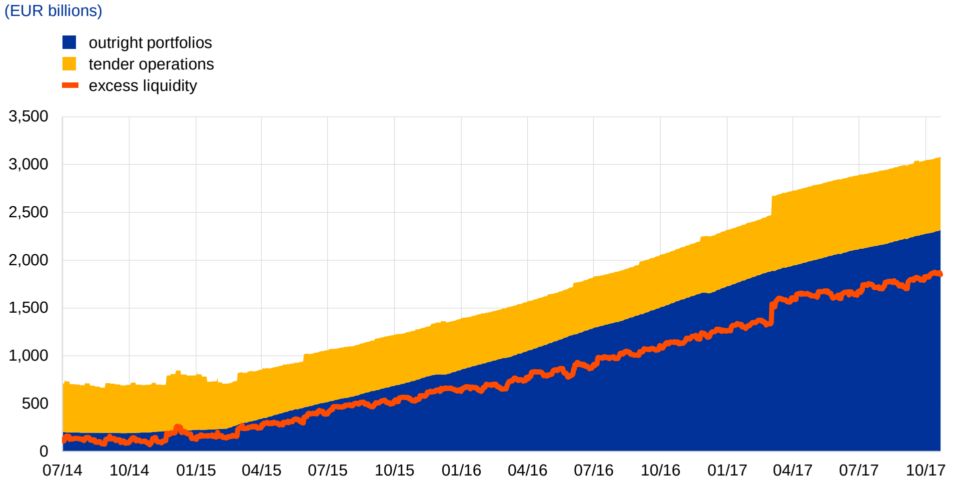
Source: ECB.
Notes: Since all figures in table A are rounded, in some cases the figure indicated as the change relative to the previous period does not represent the difference between the rounded figures provided for these periods (differing by €0.1 billion).
1) The overall value of autonomous factors also includes "items in course of settlement".

Liquidity provided through monetary policy instruments

The average amount of liquidity provided through open market operations – both tender operations and APP purchases – increased by €152.3 billion to €2,966.5 billion (see Chart A). This increase was fully attributable to the APP, while demand in tender operations decreased marginally.

Chart A

Evolution of open market operations and excess liquidity



Source: ECB.

The average amount of liquidity provided through tender operations declined slightly over the review period, by €6.0 billion to €772.7 billion. This decrease was primarily due to a lower average level of liquidity provided through MROs, which fell by €5.4 billion. The average outstanding amount of TLTROs also decreased slightly, by €2.8 billion, as a consequence of voluntary early repayments of funds borrowed via those operations. By contrast, the average amount of liquidity provided through three-month LTROs increased by €2.3 billion.

Liquidity provided through the Eurosystem's monetary policy portfolios increased by €158.3 billion to €2,193.8 billion, on average, on the back of the APP purchases. Average liquidity provided by the public sector purchase programme (PSPP), the third covered bond purchase programme, the asset-backed securities purchase programme and the corporate sector purchase programme rose on average by €139.9 billion, €8.4 billion, €0.6 billion and €18.0 billion respectively. The reduction in liquidity owing to redemptions of bonds held under the Securities Markets Programme and the previous two covered bond purchase programmes totalled €8.6 billion.

Excess liquidity

As a consequence of the developments detailed above, average excess liquidity in the period under review rose by €109.5 billion compared with the

previous period, to €1,755.3 billion (see Chart A). As mentioned above, the increase largely reflects the liquidity provided through the APP with a monthly target of €60 billion, which was somewhat offset by an increase in liquidity needs coming from autonomous factors. A more detailed analysis of the period under review shows that excess liquidity increased in the fifth maintenance period, growing by €90.1 billion on account of the APP purchases and a decrease in liquidity-absorbing autonomous factors, mainly as a result of lower government deposits. The sixth maintenance period saw a smaller increase in excess liquidity of €47.1 billion, as the liquidity injected via the APP was offset to some extent by higher aggregate liquidity needs of the banking sector as a result of an increase in government deposits.

The increase in excess liquidity corresponded to higher average current account holdings, which rose by €74.0 billion to stand at €1,248.0 billion in the period under review, while the average recourse to the deposit facility increased by a further €35.2 billion to stand at €629.8 billion.

Interest rate developments

Overnight money market rates remained close to the deposit facility rate, even falling below it for specific collateral baskets in the secured segments. In the unsecured market, the euro overnight index average (EONIA) averaged -0.357%, compared to an average of -0.358% in the previous review period. The EONIA fluctuated within a narrow range, with a high of -0.345% on the last day of August 2017 and a low of -0.366% in mid-September 2017.

In the secured market, average overnight repo rates in the GC Pooling market declined slightly for both the standard collateral basket and the extended collateral basket relative to the previous review period. The overnight repo rate stood at -0.437% for the standard collateral basket, while for the extended collateral basket the average overnight repo stood at -0.402%.

The September 2017 quarter-end decline in the core repo rates, which was similar to that observed in June 2017, was relatively mild compared to the 2016 year-end decline and the March 2017 quarter-end decline. This suggests that market participants have adopted more efficient practices for collateral management. Moreover, this development also suggests positive effects from the cash-collateral facility for PSPP securities lending.